

INTERNAL REVENUE SERVICE  
District Director  
c/o McCaslin Industrial Park  
2 Cupania Circle  
Monterey Park, CA 91755

Department of the Treasury

Date: AUG 09 1995

Employer Identification Number:

Case Number:

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Applicant:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code of 1986.

FACTS

The information submitted discloses that you were incorporated under the Nonprofit Mutual Benefit Corporation Law of the state of [REDACTED] on [REDACTED].

The specific purpose of your organization, as stated in Section B, of Article II of your articles of incorporation, is "to act as a trade association of retail dealers of automobiles in the City of [REDACTED], and to promote the mutual interests of its members by all lawful means, and to conduct advertising, selling and public relations campaigns pertaining to the various automobiles sold by the association's members."

Your application Form 1024, states that the function of your organization is to purchase an electric readerboard-type sign which will be used by your members to advertise their businesses by placing their names on the sign. The activity was initiated in [REDACTED] and will be conducted at the [REDACTED] located on [REDACTED] in [REDACTED] by members of your organization.

Membership in your organization is open to the [REDACTED] automobile dealers in the [REDACTED]. Each member has a voting right in your organization as well as the right to advertise on the sign.

Your income will be derived from membership dues and assessments. Your expenses are projected to include programming the sign, utilities, telephone, accounting, and loan payments for the sign.

ISSUE

Does the organization qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code?

LAW

Section 501(c)(6) of the Internal Revenue Code describes certain organizations exempt from income tax under section 501(a) and reads as follows:

"(6) Business leagues, chambers of commerce, real estate boards, boards of trade, or professional football leagues (whether or not administering a pension fund for football players), not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the Income Tax Regulations provides, in part, as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons."

Advertising which carries the names of members generally constitutes the performance of particular services for members. Thus, an association of merchants in a particular shopping center whose advertising material contained the names of the individual merchants was denied exemption. The organization expended its funds and engaged exclusively in advertising in various newspapers and on television and radio in order to attract customers to the shopping center. Revenue Ruling 64-315, 1964-2 C.B. 147.

In Revenue Ruling 65-14, 1965-1, C.B. 236, it was held that an organization formed to promote the tourist trade in its area which had, as its primary activity, the publication of a yearbook consisting largely of paid advertisements for its members was NOT entitled to exemption from Federal income tax under section 501(c)(6). The yearbook, containing listings of individual members, constituted advertising for the individuals so listed. This is considered performance of particular services for such individuals rather than an activity aimed at the improvement of general business conditions.

Revenue Ruling 76-409, 1976-2 C.B. 154 discusses a non-profit organization of individuals that distributed a directory containing member's names and addresses. The publication and distribution of a directory containing names and addresses of members constitutes advertising for the individuals so listed and is, therefore performing particular services for such individuals rather than performing an activity aimed at the improvement of general business conditions. It is therefore not exempt under 501(c)(6).

Similarly, Revenue Ruling 56-65 1956-1 C.B.199 held that an organization that furnished particular information and specialized individual services to its members through publications and other means to effect economies in the operation of their individual businesses did not qualify for exemption under section 501(c)(6).

#### ANALYSIS

In order to qualify for tax-exemption as a business league described in section 501(c)(6) of the Code, an organization's activities must be directed towards the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons.

The primary purpose of your organization is to provide a sign for your members to advertise their businesses. As noted from the Revenue Rulings listed above, advertising constitutes the performance of particular services for members and is not an activity directed toward the improvement of business conditions as a whole.

#### TAXPAYER'S POSITION

You state that you are "under contract with the City of [REDACTED] [REDACTED] for promotional services including the construction and installation of the electronic readerboard." You further state that the advertising your organization provides to its members will strengthen the sales of the City and result in higher sales tax revenue to the City.

#### CONCLUSION

It is the position of the Internal Revenue Service that your organization does not qualify for exemption from Federal income tax under Internal Revenue Code section 501(c)(6) as you are primarily engaged in advertising your members' businesses. Advertisements carrying the names of member businesses' services and/or merchandise constitutes the performance of particular services for members and is not an activity directed toward the improvement of business conditions

[REDACTED]

as a whole. This is true regardless of the contract you have with the City to perform these services. Furthermore, the benefits flowing to the City of [REDACTED] in the form of increased sales tax revenue is incidental to the increased sales your members' businesses receive from the advertising you do for them.

Accordingly, you are required to file income tax returns on Form 1120, U.S. Corporate Income Tax Return, annually with your respective Service Center.

If you are in agreement with this proposed determination, we request that you sign and return the enclosed agreement Form 6018. Please note that the instructions for signing on the reverse side of this form.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law, and any other information in support of your position as explained in the enclosed Publication 892. You will be contacted to arrange a date for a hearing. The hearing may be held at the Office of Regional Director of Appeals, or if you request, at a mutually convenient District Office. A self-addressed envelope is enclosed.

If we do not hear from you within 30 days from the date of this letter, and you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination.

If you have any questions, please contact the person whose name appears on the heading of this letter.

Sincerely,

[REDACTED]

District Director

Enclosures:  
Publication 892  
Form 6018